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IN REPLY
REFER TO

AQOE

FEB 7 1997

MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT DISTRICTS
COMMANDERS, DCMC CONTRACT ADMINISTRATION OFFICES

SUBJECT: DCMC Memorandum No. 97-²⁰, Management of Canceling Funds (POLICY)

This is a POLICY memorandum. It expires when content is included in DLAD 5000.4, Contract Management (One Book), not to exceed one year. Target Audience: All DCMC Employees.

Ever since September 1993 when the merged (M) account authority lapsed, our customers have been concerned about canceling funds. As you know, Congress approves money for use for certain periods of time. When the period of time is over, the funds "expire." When funds on a contract cancel before the completion of intended actions, i.e., before the items are delivered or before the contract is closed, the Government has to use current year money to pay the bill. When funds are no longer needed on a contract and are not deobligated prior to expiration, the Government loses the opportunity to use them for some other purpose.

When the M account was first eliminated, it was presumed most of the funds at risk were on contracts awaiting closeout, more specifically overage contracts awaiting closeout -- hence the initiatives of several years ago to reduce overage contracts. This strategy worked as overage contracts and percentage of at-risk funds on overage contracts were significantly reduced. As a result, last year we changed the goals on overage contracts to 20 percent overall and five percent on contracts with canceling funds. Since this time, we have received many comments regarding the metric on canceling funds. Many comments suggested analysis is necessary for all canceling funds, not just canceling funds on overage contracts. We agree. Therefore, while the 20 percent goal will remain, the five percent overage goal for contracts with canceling funds is eliminated and will be replaced with the goal to drive canceling funds down to zero for all those actions DCMC controls. This includes all contracts in Section 1, Section 2, and some of Section 3 of the Mechanization Of Contract Administration Services (MOCAS) Canceled Funds Report (UNFA690E and D). Only contracts in Section 4, Defense Finance and Accounting Service (DFAS) Adjustments, are beyond DCMC control, and we have limited control over Termination For Default (T for D) dollars in Section 3.

The following is the rationale and specifics for this new canceled funds goal:

a. Section 1 (Active) Contracts. Beginning FY 97 data from the UNFA690E report shows \$1.145B at risk in this category. The goal is to have no funds cancel at the end of Fiscal Year 1997. Contract Administration Offices (CAOs) should review their UNFA690D report and identify line items with canceling funds. These line items need to become a top priority for immediate, in-plant delivery surveillance. If surveillance indicates delivery cannot take place before the funds cancel, CAOs need to work with their buying activities to look for strategies to protect the funds.

b. Section 2 (Complete) Contracts. Beginning FY 97 from the UNFA690E report shows \$294M at risk in this category. The goal is to have no funds cancel at the end of Fiscal Year 1997. CAOs need to review their UNFA690D report and identify contracts with canceling funds awaiting closeout. These contracts should become a top priority for closeout. Final rate negotiations should be prioritized so that contracts with canceling funds are at the top. If final rates still appear to be a challenge because of mergers, acquisitions, litigation or other extenuating circumstances, CAOs should pursue alternate means of closeout (see AQOE letter dated January 3, 1996, subject: Contract Closeout, and AQCO letter dated June 16, 1995, subject: Contract Closeout, Best Practices and Lessons Learned).

c. Section 3 (Dormant) Contracts. Beginning FY 97 from the UNFA690E report shows \$189M at risk in this category. Goal is to have no more funds cancel beyond those on T for D contracts. CAOs should review their UNFA690D report and ensure all contracts in the section have been reviewed and whatever funds can be deobligated will be. In addition, (1) terminations for convenience should be identified to the termination contracting officer and CAOs shall make these a top priority for termination settlements; (2) terminations for default should be identified to the buying activity to ensure the buying activity knows there are funds at risk; and (3) contracts in litigation should be identified to the CAO's Counsel to see if there are alternate means of settlement.

d. Section 4 (Adjustments) Contracts. Beginning FY 97 from the UNFA690E report shows \$35.8M at risk in this category. Since actions in this category are under the control of the DFAS we cannot set a goal. However, the DCMC DFAS Liaison should work with DFAS on any assistance DCMC may provide and CAOs should be responsive to DFAS needs on these contracts.

Progress towards the canceling funds goals will be tracked at the DCMC Monthly Management Reviews starting in March 1997.

In addition, we are working to sort the Canceled Funds (UNFA690E) Report by Buying Activity. The sorts will be provided to the buying activities and DCMC Liaisons. The Liaisons will be asked to assist the buying activity with the reconciliation of this list with their internal canceled funds data.

For further information please contact Ms. Stephanie Strohbeck, AQOE, (703) 767-3445.



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